PATENT

IN THE UNITED STATES PATENT AND TRADEMARK OFFICE

In Re Application of	)	FOR: ARTIFICIAL LIVER APPARATUS AND METHOD
EDWARD F. MYERS ET AL.	)	
Serial No.: 08/809,677	)	
Filing Date: July 27, 1994	)	Group Art Unit: Unknown

PETITION UNDER 37 C.F.R. § 1.47

Hon. Commissioner for Patents
Washington, D.C. 20231

Attention: Derek Putonen
Examiner

Dear Sir:

This petition is further in connection with the reinstatement of the present application after unintentional abandonment, and is directed to the Notification of Missing Requirements Under 35 U.S.C. § 371 in the United States Designated/Elected Office (DO/EO/US), dated June 30, 1999.

In particular this petition concerns the requirement in Part 2(c) of the Notification for Declarations of the named inventors.

I hereby certify that this correspondence is being deposited with the United States Postal Service as first class mail in an envelope addressed to: Commissioner for Patents, Washington, DC 20231, on June 1, 2001

Sheryl Schoen
(Name)

(Signature)

Assignee Xenogenics ("Petitioner") hereby petitions to prosecute this application in the United States Patent and Trademark Office under the provisions of 37 C.F.R. § 1.47 on behalf of each of the three named inventors: Edward F. Myers, Albert P. Li, and Achilles Demetriou. Petitioner represents, as described below, that each of the named inventors has refused to execute the requested Declarations, that Petitioner is the lawful assignee of the right, title and interest of each of the inventors in and to this application and the invention defined herein, and that therefore granting Petitioner's petition to prosecute this application at the USPTO on behalf of the named inventors is appropriate.

The last known addresses of the names inventors are as follows:

Edward F. Myers
In Vitro Technologies
1450 South Rolling Road
Baltimore, MD 21227

Albert P. Li
505 Caminito Elevado
Bonita, CA 91902

Achilles A. Demetriou
Cedars-Sinai Medical Center
8700 Beverly Boulevard
Los Angeles, CA 90048

DISCUSSION

Petitioner's claim of ownership of this application and the invention claimed herein is based in part on the following sequence of assignments:

a. Cedars-Sinai Medical Center ("CSMC") in Los Angeles, California was the first assignee, from the original named inventors: Drs. Edward F. Myers, Donald V. Cramer, Leonard Makowka and Achilles A. Demetriou. Dr. Myers executed his copy of the assignment of the invention and all applications related thereto to CSMC on

California; this assignment was recorded at the USPTO on Reel 6504, frame 0650 [date unknown]; see Exhibit B.

c On July 10, 1996, Xenogenex, Inc. assigned its rights to Exten Industries, Inc., also of San Diego, California; see Exhibit C.

d. Finally, on June 12, 1997, Exten Industries, Inc., assigned its rights to Petitioner Xenogenics Corporation, also of San Diego, California; see Exhibit D, who continues as owner of the subject application and invention.

As noted above, Edward F. Myers was named as an original inventor and assigned his rights to CSMC; see Exhibit A. By the noted mesne assignments Petitioner now owns Dr. Myers' rights. Further, as will be seen in Exhibit E, Dr. Myers was also president of Xenogenex, Inc., when he worked with Dr. Li on the invention. By virtue of his position as an officer of Xenogenex (as will be discussed below), Dr. Myers' rights belonged to Xenogenex, from which by mesne assignments those rights have become Petitioner's. Since leaving Xenogenex, Dr. Myers has consistently refused to cooperate with Petitioner or its predecessors in matters regarding this patent application. It is not anticipated by Petitioner that Dr. Myers' cooperation in regarding any Declaration pertaining to inventorship will be forthcoming in the foreseeable future.

Albert F. Li became Chief Scientific Office of Petitioner's predecessor, Xenogenex, on January 11, 1994. As will be discussed below, that position obligated him to assign to the company all inventions related to the company's business. The technology of the present invention is specifically identified in his employment agreement (entitled "Consulting Agreement"; hereinafter "Agreement"). In the Agreement, Dr. Li agreed to sign a separate assignment document for the invention, which was sent to him with a cover letter. Dr. Li returned the assignment unsigned but indicated on the cover letter that his only reason for not signing the assignment was that he thought that he was being asked

Dr. Li was advised that the assignment that he had been sent was in counterpart form and

that his signature would be only on his own behalf, Drs. Myers and Demetriou having been provided with their own counterpart assignment documents. However, thereafter (and in violation of his employment status and the signed Agreement) Dr. Li took a contrary position, refused to cooperate with Petitioner's predecessor and would not sign the assignment on his own behalf. It is not anticipated by Petitioner that Dr. Li's cooperation in any matters related to this application will be forthcoming in the foreseeable future. All of the documents mentioned above pertaining to Petitioner's acquisition of Dr. Li's rights are included within Exhibit E attached hereto (the Amendment is redacted to exclude non-relevant material).

The fact that Dr. Li's assignment was ultimately not signed does not negate Petitioner's rights under Rule 47. The evidence presented indicates in his own hand that, in compliance with his Agreement, he would have executed that assignment of his right, title and interest in and to the invention and application had he not mistakenly thought that he was being asked to sign not just for himself but also on behalf of Drs. Myers and Demetriou. By the time that his misunderstanding had been corrected, however, he had for other reasons become antagonistic and thereafter refused to sign the assignment, notwithstanding his former consent in his Agreement.

With respect to both Drs. Myers and Li, it is well settled that an officer of a corporation owes to that corporation the assignment of all technical developments made by the officer in the course of his employment and material to the business of the corporation; *Teets v. Chromalloy Gas Turbine Corp.*, 83 F.3d 403, 38 U.S.P.Q.2d 1695 (C.A.F.C., 1996); *Pursche v. Atlas Scraper & Engrg. Co.*, 300 F.2d 467, 132 U.S.P.Q. 104 (9th Cir., 1961); *Blum v. Commission of I.R.S.*, 183 F.2d 281, 86 U.S.P.Q. 118 (3rd Cir., 1950); *Kennedy v. Wright*, 676 F.Supp. 888, 6 U.S.P.Q.2d (C.D. Ill., 1988); *Moore v. American Barmag Corp.*, 693 F.Supp. 399, 9 U.S.P.Q.2d 1904 (W.D. N.C., 1988); and

see also CALIFORNIA LABOR CODE §§ 2860 and 2863 (West Publ. Co.: 2000; copies

attached hereto as Exhibit F); clearly any technical developments -- including the present invention -- made by Drs. Myers and Li during the course of their employments belonged to their employer, Petitioner's predecessor Xenogenex (and have since been transferred by mesne assignments to Petitioner.).

Achilles Demetriou is now and at the times relevant to this matter has been employed by CSMC. Dr. Demetriou executed an assignment to Petitioner's predecessor in interest, Exten Industries, on May 22, 1998, which was recorded in the USPTO on June 8, 1998, at Reel 9212, Frame 0255-0256. Copies of that assignment and the USPTO record notification are attached hereto as Exhibit G.

Dr. Demetriou and CSMC have been represented by both a private attorney, Edward Poplawsky, and the General Counsel for CSMC, James Laur. On May 13, 2001, Mr. Laur wrote a letter to Petitioner's president in which he stated that Dr. Demetriou was not an co-inventor of the invention claimed herein and would not now sign any documents pertaining to the application. A copy of that letter attached hereto as Exhibit H. However, Mr. Laur presents no evidence to that effect, notwithstanding that Dr. Demetriou's name has been included among the named inventors on both this application and its parent from the earliest date with the full knowledge of and acquiescence by CSMC. In any event, the issue of Dr. Demetriou's inventorship cannot be resolved at the present time, since such requires a full review of all evidence related to his involvement or lack thereof. In view of his attorneys' adverse position, it is not anticipated by Petitioner that Dr. Demetriou's cooperation in any matters related to this application will be forthcoming in the foreseeable future. However, Petitioner submits that resolution of inventorship is not material to this Petition and application of Rule 47, since Dr. Demetriou has assigned his rights -- to whatever degree they may exist -- to Petitioner, both directly and through the mesne assignment of his employer, Cedars-Sinai Medical Center. If in some future proceedings

[illegible] "inventorship," his name at that time can be stricken from the list of co-inventors.

As indicated in Exhibit A, the invention originally was thought to involve contributions not only from Drs. Myers and Demetriou, but also two other researchers at CSMC, Drs. Makowka and Cramer. Subsequent analysis of the invention as claimed resulted in a determination that Drs. Makowka and Cramer should not be considered to be inventors, and their names were withdrawn as inventors. Subsequent research and development work on the invention involved contributions from Dr. Li, whose name subsequently was added to the list of named inventors.

CONCLUSION

Based on the above facts, Petitioner submits that it is the rightful assignee of Drs. Myers, Li and Demetriou, either directly or by mesne assignments, for the prosecution of this application within the USPTO and for all matters involving the grant of any patent thereon, under the provisions of 37 C.F.R. § 1.47.

Therefore, Petitioner respectfully submits that all of the requirements of 37 C.F.R. § 1.47 have been met and that it is appropriate that this petition be GRANTED and that the Notification of Missing Requirements Under 35 U.S.C. § 371 in the United States Designated/Elected Office (DO/EO/US) be withdrawn with respect to any Declaration of the inventors, such that the application can move forward through prosecution notwithstanding the refusal of the inventors to executed the requested Declaration.

It is not believed that any fees are due with respect to this petition other that the fee required under 37 C.F.R. § 1.17(h), a check for which is enclosed herewith. However, should any additional fees be due, the Patent and Trademark Office is authorized to charge all such fees to Deposit Account No. 02-4070.

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Should the USPTO believe that granting of this petition might be expedited by further discussion of the issues, a telephone call to the undersigned attorney, collect, at the telephone number listed below, by a representative of the USPTO, is cordially invited.

Respectfully submitted,

Date: June 1, 2001 By: _____

James W. McClain, Reg. No. 24,536
Attorney for Petitioner

BROWN, MARTIN, HALLER & McCLAIN, LLP
1660 Union Street
San Diego, California 92101-2926

Telephone: (619) 238-0999
Facsimile: (619) 238-0062
Docket No. 7728-PA01

ASSIGNMENT

TO WHOM IT MAY CONCERN:

For the sum of One Dollar and other valuable consideration to me in hand paid, receipt of which is hereby acknowledged, be it known that I, Edward F. Myers, Ph.D., a citizen of the United States, having a place of residence at _____ _____, California _____, have sold, assigned and transferred and by these presents do sell, assign, transfer and set over unto CEDARS-SINAI MEDICAL CENTER, a non-profit corporation, having its principal offices in Los Angeles, California, its successors, legal representatives, or assigns, my whole right, title and interest in and to a certain invention known as the ARTIFICIAL LIVER APPARATUS AND METHOD FOR EXTRACORPOREAL PURIFICATION OF BLOOD AND PLASMA by me devised jointly with Dr. Donald V. Cramer, Dr. Leonard Makowka and Dr. Achilles A. Demetriou, and the application for United States Patent therefor executed by us on even date herewith preparatory to filing the same in the United States Patent and Trademark Office, and all original and reissue patents granted thereof, and all divisions, and continuations thereof, including the subject-matter of any and all claims which may be obtained in every such patent, and all foreign rights to said invention, and covenant that we have full right to do so, and agree that we will communicate to said corporation or its representatives all facts known to us respecting said invention whenever requested, and testify in any legal proceedings, sign all lawful papers, [illegible] all rightful oaths and generally do everything possible to aid said corporation, its successors, assigns, and nominees, to obtain and enforce proper patent protection for said invention in all countries.

The Commissioner of Patents and Trademarks is requested to issue the Letters Patent which may be granted for said invention or any part thereof unto the said corporation in keeping with this Assignment.

Done at San Diego, CA this 26th day of October, 1992.

EDWARD F. MYERS, Ph.D.

STATE OF CALIFORNIA)
) ss.
COUNTY OF San Diego)

On October 26, 1992, before me, the undersigned, a Notary Public in and for said State, personally appeared EDWARD F. MYERS, Ph.D., personally known to me or proved to me on the basis of satisfactory evidence to be the person whose name is subscribed to the within instrument and acknowledged that he executed same.

SUE E. MOORE
Comm. # 963888
NOTARY PUBLIC - CALIFORNIA
San Diego County
My Comm. Expires Apr. 9, 1996

Notary Public

(seal)

ASSIGNMENT

TO WHOM IT MAY CONCERN:

For the sum of One Dollar and other valuable consideration to us in hand paid, receipt of which is hereby acknowledged, be it known that we, Cedars-Sinai Medical Center, a California nonprofit public benefit corporation, having a principal place of business at 8700 Beverly Boulevard, Los Angeles, California 90048-1869, have sold, assigned and transferred and by these presents do sell, assign, transfer and set over unto Xenogenex, Inc., a California corporation, having its principal offices in San Diego, California, its successors, legal representatives, or assigns, its whole right, title and interest in and to a certain invention known as the ARTIFICIAL LIVER APPARATUS AND METHOD FOR EXTRACORPOREAL PURIFICATION OF BLOOD AND PLASMA, and the application serial number 07-943,777 filed with the Patent and Trademark Office on September 11, 1991, for United States Patent therefor, and all original and reissue patents granted thereof, and all divisions, and continuations thereof, including the subject-matter of any and all claims which may be obtained in every such patent, and all foreign rights to said invention, and covenant that it has full right to do so.

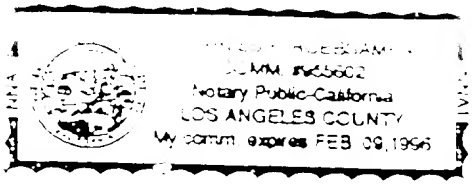
The Commissioner of Patents and Trademarks is requested to issue the Letters Patent which may be granted for said invention or any part thereof unto the said corporation in keeping with this Assignment.

Done at Los Angeles, California this 21st day of April, 1993.

Sheldon S. King
Sheldon S. King
President

STATE OF CALIFORNIA)
) ss.
COUNTY OF LOS ANGELES)

On April 21, 1993, before me, the undersigned, a Notary Public in and for said State, personally appeared SHELDON S. KING, personally known to me to be the person whose name is subscribed to the within instrument and acknowledged that he executed same.



FISH & RICHARDSON P.C.

4225 Executive Square
Suite 1400
La Jolla, California
92037

Telephone
619 678 5070

Facsimile
619 678 5099

Frederick P. Fish
1855-1930

W.K. Richardson
1859-1951

May 12, 1998

Albert Li, Ph.D.
IN VITRO TECHNOLOGIES
1450 S. Roling Road, 3rd Floor
Baltimore MD 21227

Re: National Phase Application in U.S.
Serial No. 08/809,677 (Based on PCT/US94/10935)
Entitled: **ARTIFICIAL LIVER APPARATUS AND METHOD**
Filed: March 27, 1997
Our Ref.: 07354/004001

Dear Dr. Li:

The U.S. Patent Office has requested that an executed assignment be filed in the above-identified application. Enclosed please find an Assignment document which we prepared for your signature.

Please sign and date the enclosed Assignment and returned us as soon as possible. I have enclosed a self-addressed, stamped envelope for this purpose.

Please do not hesitate to call me if you have any questions.

Very truly yours,

Cindy McClure
Secretary to Stacy L. Taylor

/cmm
Enclosures

PIS received
Application that be
signed for immediately
I will
Thankfully.

Dear Ms McClure,
[illegible]
represent the other inventors. [illegible]
sign the attached forms. Sincerely
Albert P. Li Ph.D

PATENT
ATTORNEY DOCKET NO.: 07354-004001

ASSIGNMENT

For good and valuable consideration, the receipt of which is hereby acknowledged, ASSIGNOR(S),

1. Edward F. Myers

2. Albert P. Li

3. Achilles Demetriou

hereby sells, assigns, and transfers to ASSIGNEE, Exten Industries, Inc., 9625 Black Mountain Road, Suite 218, San Diego, CA 92126-4564, and the successors, assigns and legal representatives of the ASSIGNEE all of its right, title and interest for the United States and its territorial possessions and in all foreign countries in and to, any and all improvements in the invention entitled: ARTIFICIAL LIVER APPARATUS AND METHOD

and which is found in

(a) __ U.S. patent application executed on _____, entitled as above and listing the above named persons as inventors

(b) x U.S. patent application serial no. 08/809,677, filed on March 27, 1997

(c) __ U.S. Patent No.: _____, issued _____.

and any legal equivalent thereof in a foreign country, including the right to claim priority and, in and to, all Letters Patent to be obtained for said invention by the above application or in any continuation, division, continuation-in-part, extension or substitute thereof, and any reissue, reexamination or extension of said Letters Patent and all rights under all International Conventions for the Protection of Industrial Property;

ASSIGNOR(S) hereby covenants that no assignment, sale, agreement or encumbrance has been or will be made or entered into which would conflict with this assignment;

ASSIGNOR(S) further covenants that ASSIGNEE will, upon its request, be provided promptly with all pertinent facts and documents relating to said invention and said Letters Patent and legal equivalents as may be known and accessible to ASSIGNOR and will testify as to the same in any interference, litigation, or proceeding relating thereto and will promptly execute and deliver to ASSIGNEE or its legal representative any and all papers, instruments or affidavits required to apply for, obtain, maintain, issue or enforce said application, said invention and said Letters Patent and said equivalents thereof which may be necessary or desirable to carry out the purposes thereof. An attorney of record is authorized and requested by the execution of this assignment to insert into this assignment the filing date and serial number of said application when officially known.

AND the ASSIGNOR(S) request the Commissioner of Patents and Trademarks to issue said Letters Patent of the United States and any reissue or extension thereof to the ASSIGNEE, Exten Industries, Inc.

executed this

Signature of Inventor(s)

____ day of _____, 19__

_____

Albert P. Li

PATENT
ATTORNEY DOCKET NO.: 07354/004001

ASSIGNMENT

For good and valuable consideration, the receipt of which is hereby acknowledged, ASSIGNOR(S),

1. Edward F. Myers

2. Albert P. Li

3. Achilles Demetriou

hereby sells, assigns, and transfers to ASSIGNEE, Exten Industries, Inc., 9625 Black Mountain Road, Suite 218, San Diego, CA 92126-4564, and the successors, assigns and legal representatives of the ASSIGNEE all of its right, title and interest for the United States and its territorial possessions and in all foreign countries in and to, any and all improvements in the invention entitled: ARTIFICIAL LIVER APPARATUS AND METHOD

and which is found in

(a) __ U.S. patent application executed on _____, entitled as above and listing the above named persons as inventors

(b) x U.S. patent application serial no. 08/809,677, filed on March 27, 1997

(c) __ U.S. Patent No.: _____, issued _____.

and any legal equivalent thereof in a foreign country, including the right to claim priority and, in and to, all Letters Patent to be obtained for said invention by the above application or in any continuation, division, continuation-in-part, extension or substitute thereof, and any reissue, reexamination or extension of said Letters Patent and all rights under all International Conventions for the Protection of Industrial Property;

ASSIGNOR(S) hereby covenants that no assignment, sale, agreement or encumbrance has been or will be made or entered into which would conflict with this assignment;

ASSIGNOR(S) further covenants that ASSIGNEE will, upon its request, be provided promptly with all pertinent facts and documents relating to said invention and said Letters Patent and legal equivalents as may be known and accessible to ASSIGNOR and will testify as to the same in any interference, litigation, or proceeding relating thereto and will promptly execute and deliver to ASSIGNEE or its legal representative any and all papers, instruments or affidavits required to apply for, obtain, maintain, issue or enforce said application, said invention and said Letters Patent and said equivalents thereof which may be necessary or desirable to carry out the purposes thereof. An attorney of record is authorized and requested by the execution of this assignment to insert into this assignment the filing date and serial number of said application when officially known.

AND the ASSIGNOR(S) requests the Commissioner of Patents and Trademarks to issue said Letters Patent of the United States and any reissue or extension thereof to the ASSIGNEE, Exten Industries, Inc.

executed this

Signature of Inventor(s)

2nd day of March, 1998

Achilles Demetriou

UNITED STATES DEPARTMENT OF COMMERCE
Patent and Trademark Office

AUGUST 07, 1998

PTAS

100732220A

FISH & RICHARDSON P.C.
STACY L. TAYLOR
4225 EXECUTIVE SQUARE, SUITE 1400
LA JOLLA, CA 92037

UNITED STATES PATENT AND TRADEMARK OFFICE
NOTICE OF RECORDATION OF ASSIGNMENT DOCUMENT

THE ENCLOSED DOCUMENT HAS BEEN RECORDED BY THE ASSIGNMENT DIVISION OF THE U.S. PATENT AND TRADEMARK OFFICE. A COMPLETE MICROFILM COPY IS AVAILABLE AT THE ASSIGNMENT SEARCH ROOM ON THE REEL AND FRAME NUMBER REFERENCED BELOW.

PLEASE REVIEW ALL INFORMATION CONTAINED ON THIS NOTICE. THE INFORMATION CONTAINED ON THIS RECORDATION NOTICE REFLECTS THE DATA PRESENT IN THE PATENT AND TRADEMARK ASSIGNMENT SYSTEM. IF YOU SHOULD FIND ANY ERRORS OR HAVE QUESTIONS CONCERNING THIS NOTICE, YOU MAY CONTACT THE EMPLOYEE WHOSE NAME APPEARS ON THIS NOTICE AT 703-308-9723. PLEASE SEND REQUEST FOR CORRECTION TO: U.S. PATENT AND TRADEMARK OFFICE, ASSIGNMENT DIVISION, BOX ASSIGNMENTS, CG-4, 1213 JEFFERSON DAVIS HWY, SUITE 320, WASHINGTON, D.C. 20231.

RECORDATION DATE: 06/08/1998

REEL/FRAME: 9212/0255
NUMBER OF PAGES: 2

BRIEF: ASSIGNMENT OF ASSIGNOR'S INTEREST (SEE DOCUMENT FOR DETAILS).

ASSIGNOR:
DEMETRIOU, ACHILLES

DOC DATE: 05/22/1998

ASSIGNEE:
EXTEN INDUSTRIES, INC.
[illegible] BLACK MOUNTAIN ROAD, SUITE
[illegible]
SAN DIEGO, CALIFORNIA [illegible]

SERIAL NUMBER: 08809677

FILING DATE: 03/27/1997

PATENT NUMBER:

ISSUE DATE:

RECEIVED
AUG 14 1998

ASSIGNMENT

TO WHOM IT MAY CONCERN:

For the sum of One Dollar and other valuable consideration to us in hand paid, receipt of which is hereby acknowledged, be it known that we, Xenogenex, Inc., a California corporation, having a principal place of business at 9625 Black Mountain Road, Suite 218, San Diego, California 92126, have sold, assigned and transferred and by these presents do sell, assign, transfer and set over unto Exten Industries, Inc., a Delaware corporation, having its principal offices in San Diego, California, its successors, legal representatives, or assigns, its whole right, title and interest in and to a certain invention known as the ARTIFICIAL LIVER APPARATUS AND METHOD FOR EXTRACORPOREAL PURIFICATION OF BLOOD AND PLASMA, and the application serial number 07-943,777 filed with the Patent and Trademark Office on September 11, 1991, for United States Patent therefor, and all original and reissue patents granted thereof, and all divisions, and continuations thereof, including subject-matter of any and all claims which may be obtained in every such patent, and all foreign rights to said invention, and covenant that it has full right to do so.

The Commissioner of Patents and Trademarks is requested to issue the Letters Patent which may be granted for said invention or any part thereof unto the said corporation in keeping with this Assignment.

Done at San Diego, California this 10th day of July, 1996.

W. Gerald Newmin
Chairman, Chief Executive Officer & President

STATE OF CALIFORNIA

COUNTY OF SAN DIEGO

On November 15, 1996, before me, the undersigned, a Notary Public in and for said State, personally appeared W Gerald Newmin, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his authorized capacity(ies), and that by his signature on the instrument the person or the entity upon behalf of which the person acted, executed this instrument..

WITNESS my hand and official seal.

NOTARY PUBLIC CALIFORNIA
COMM. NO. 1064778
SAN DIEGO COUNTY
MY COMM. EXP. APR. 6, 1999

(name typed or printed)

ASSIGNMENT AND ASSUMPTION

TO WHOM IT MAY CONCERN:

For the sum of One Hundred Thousand dollars ($100,000) in cash, the assumption by assignee of a promissory note in the amount of $162,500 plus accrued interest of $6,045.04 held by W. Gerald Newmin dated November 30, 1996, 1,500,000 shares of Xenogenics Corporation Common Stock and other valuable consideration to us in hand paid, receipt of which is hereby acknowledged, be it known that we, Exten Industries, Inc., a Delaware Corporation, having a principal place of business at 9625 Black Mountain Road, Suite 218, San Diego, California 92126, have sold assigned and transferred and by these presents do sell, assign, transfer and set over unto Xenogenics Corporation, a Nevada corporation, have its principal offices in San Diego, California, its successors, legal representatives, or assigns, its whole right, title and interest in and to a certain invention known as the ARTIFICIAL LIVER APPARATUS AND METHOD FOR EXTRACORPOREAL PURIFICATION OF BLOOD AND PLASMA (SYBIOL^{R}), and the application serial number 07/943,777 file with the Patent and Trademark Office on September 11, 1991, for United States Patent therefor, and all original and reissue patents granted thereof, and all divisions, and continuations thereof, including subject-matter of any and all claims which may be obtained in every such patent, and all foreign rights to said invention, and covenant that it has full right to do so.

The Commissioner of Patents and Trademarks is requested to issue the Letters Patent which may be granted for said invention or any part thereof unto the said corporation in keeping with this Assignment.

Done at San Diego, California this 12th day of June, 1997.

W. Gerald Newmin
Chairman, Chief Executive Officer and President

Xenogenics Corporation hereby assumes the obligation of Exten under the Newmin Note and agrees to execute and deliver a Form UCC-1 and Security Agreement to the note page evidencing the security interest in the collateral.

Xenogenics Corporation
James M. Considine, MD., MBA
President

STATE OF CALIFORNIA -COUNTY OF SAN DIEGO

On ~~June~~ July 4, 1997, before me, the undersigned, a Notary Public in and for said State, personally appeared W. Gerald Newmin, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his authorized capacity(ies), and that by his signature on the instrument the person, or the entity upon

ERIC E. HAWKINS
(Name typed or printed)

OFFICIAL SEAL
ERIC E. HANKINS
NOTARY PUBLIC-CALIFORNIA
SAN DIEGO COUNTY
MY COMM. EXP. APRIL 6, 200

STATE OF CALIFORNIA -COUNTY OF SAN DIEGO

On ~~June~~ SEPT. 4, 1997, before me, the undersigned, a Notary Public in and for said State, personally appeared James M. Considine, MD., MBA, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his authorized capacity(ies), and that by his signature on the instrument the person or the entity upon behalf of which the person acted, executed this instrument.

WITNESS my hand and official seal,

Eric E. Hankins
Notary Public

ERIC E. HANKINS
(Name typed or printed)

CONSULTING AGREEMENT

THIS AGREEMENT is entered into and effective as of January 1, 1994, by and between Dr. Albert Li ("LI") and Xenogenex, Inc., a California corporation ("XENOGENEX").

1. RECITALS

This Agreement is entered into in contemplation of the following facts, circumstances and representations:

1. LI is presently employed by the St. Louis University Medical Center ("SLU") to manage the SLU liver research program.

2. SLU has agreed to provide laboratory and supporting facilities necessary to support the XENOGENEX artificial liver ("SYBIOL") development program for a period of up to two years in accordance with a separate agreement between these parties. Upon expiration or termination of said agreement, XENOGENEX may elect to move the program to another institution or its own facilities.

3. XENOGENEX intends to attempt to acquire an exclusive worldwide unrestricted license to utilize the patented synthetic liver technology represented by U.S. Patent #07/832,461 in the development of SYBIOL. The license for this technology, and any other third party technologies if acquired, shall be available to LI to assist him pursuant to this agreement.

4. XENOGENEX desires to employ LI as a consultant concurrently with his employment with SLU, and for an additional period of time, to conduct SYBIOL research and development for the benefit of XENOGENEX, and further to have LI serve as officer of XENOGENEX.

5. LI desires to undertake such consulting pursuant to the terms and conditions as more specifically set forth herein.

2. TERMS AND CONDITIONS

2.2 Term of Agreement: The term of this Agreement shall be for a period of five (5) years beginning January 1, 1994 and ending on December 31, 1998.

2.3 Duties of LI: LI shall be responsible for the overall administrative and scientific management and direction of the SYBIOL Program, including incorporation of technology represented by U.S. Patent #07/832,461, if a license for use is obtained, and other third party technologies as determined beneficial. These responsibilities specifically include achieving the timely development milestones and government regulatory approvals leading to successful commercial business for XENOGENEX in accordance with the Synthetic Bio-Liver Development Plan dated October 26, 1993 included as Exhibit A. Should a license for the aforementioned patent not be obtained in a timely manner, then a modified Development Plan shall be mutually agreed to.

2.4 Records and Reports: Li shall be responsible for the maintenance of accurate and complete records of the work accomplished under the synthetic bio-liver and related programs funded by XENOGENEX and under his direction. Such records shall include, but not limited to: notebooks of activities of individual research personnel, data tabulations, computer programs and files, internal memos and correspondence. Ownership of such records generated at SLU or any other institution shall be as determined under separate agreement between XENOGENEX and the institution.

A written summary report of the work performed, results and analyses, including copies of all technical papers and reports published, shall be forwarded to XENOGENEX management on a quarterly basis.

2.5 Compensation: For his services as Chief Scientific Officer, LI shall be paid the annual fee of which shall be in addition to his compensation from SLU.

2.13 Specific Conditions of Employment: This Agreement is specifically conditioned upon the following:

3. I.I signing an Invention and Non-Disclosure Agreement of the form presented in Appendix B covering his consulting activates for XENOGENEX outside of his employment by SI.U.

Dated: 1/11/94

DR. ALBERT LI

XENOGENEX, INC.

Dated: 12-23-1993

EDWARD F. MYERS, Ph.D.
President

Rev. December 23, 1993

CEDARS-SINAI MEDICAL CENTER.

May 13, 2001

BY TELEFAX ONLY

Gregory F. Szabo
President & Chief Executive Officer
Xenogenics
9620 Chesapeake Drive, Suite 201
San Diego, California 92123

Re: Patent – Xenogenics/Xenogenex

Dear Mr. Szabo:

This letter responds to your letter dated May 9th regarding certain documents that your company would like Dr. Achilles Demetriou to review and execute related to the above-referenced matter. If we understand your concerns correctly, you are complaining about (i) a delay on our part to respond to your request to review and execute documents related to a new CIP; and (ii) the loss of "time, money and opportunity". In short, we did respond to your request by noting that Dr. Demetriou was *not* an inventor of the CIP and never worked with the other two named inventors. We have been waiting to hear back from your attorney, Jim McClain of the Brown Martin firm, regarding our observation that Dr. Demetriou was not an inventor of the CIP that you are attempting to file. Given the fact that the Medical Center has been incurring increasing costs to review and respond to your company's requests for assistance on this unrelated CIP and we are in the process of preparing an invoice for our expenses. This invoice will be sent to you under separate cover.

Given the serious nature of the concerns you raised, we investigated the matter immediately. After discussing this matter with Ed Poplawski, our outside patent attorney assisting us with your request, we have concluded that there may be some confusion regarding the Medical Center's position regarding your company's request. Your letter

DEPARTMENT OF LEGAL AFFAIRS
8700 Beverly Blvd., Los Angeles, CA 90048
(310) 423-5284 | (310) 423-0101 | LAFR@CSHS.ORG

CEDARS-SINAI MEDICAL CENTER.

The Medical Center transferred the rights to a certain pending patent application (the "Original Application") and have, over the years, been cooperating with your company's efforts to pursue the patent process on the Original Application. Now, we understand that your company would like to file a CIP which takes advantage of the filing date of the Original Application. The CIP names the two original inventors (Demetriou and Meyers) and adds a new inventor unrelated to the Medical Center. Dr. Demetriou has not been collaborating with your company or the other two named inventors and, therefore, Dr. Demetriou should not be named on the CIP and is not obliged to participate in the review process of this new CIP.

We have been advised that your company can pursue the CIP application without the participation of Dr. Demetriou. You do not need his signature on documentation related to the CIP because he is not an inventor of any of the claims you are adding in the CIP. *We are not delaying anything*. While we have been assisting your company with the patent process related to the Original Application, we are not in a position to provide the time and expertise of our faculty members for a CIP which is based wholly on the work done by two inventors unrelated to the Medical Center. Perhaps these details were never brought to your attention, but we strongly deny that the Medical Center has done anything to cause your company to lose any "time, money and opportunity". In fact, the Medical Center is the one who has been incurring costs in both time and expense in re-visiting your company's requests for assistance for matters unrelated to the Original Application. As mentioned earlier in this letter, we will be sending you our invoice for the time and expenses incurred in addressing these unrelated matters.

The Medical Center's position has been explained to Mr. McClain. We have asked him to provide us with an explanation of why Dr. Demetriou's participation is required or how the company's rights to pursue the CIP would be negatively impacted without Dr. Demetriou. Again, we have not heard back from Mr. McClain with an answer to those questions. We have no reason to believe that there are factors which would alter our conclusion, however, we have asked Mr. Poplawski to follow-up with Mr. McClain to ensure that there is no misunderstanding about this matter.

[illegible] In short, yes she did. She brought each and every message to the attention of the attorney who was handling this matter and undoubtedly increased our outside costs in addressing this unrelated project. In your letter, you acknowledge that you were aware that [illegible]

CEDARS-SINAI MEDICAL CENTER.

then why you felt it necessary to contact Ms. Pierson weekly? You might have wanted to contact Mr. McClain to follow-up on the status and you could have discovered that we were waiting to hear back from him. Again, we do not believe we were doing anything other than ensure that your weekly inquiries were forwarded to the person actually handling the project. We certainly did not want to leave you with the impression that the Ms. Pierson was not attending to your inquiries. Please be assured that every message that the Technology Transfer Office receives is given the attention that it deserves.

We trust that this is responsive to the concerns that raised in your recent letter. We are sorry if there was any confusion, but we believe that our position has been clear all along. The Medical Center, for obvious reasons, cannot provide your company with assistance with new patent matters that are unrelated to the work performed here and embodied in the Original Application. If there are any questions regarding the points raised in this letter, please have Mr. McClain contact Mr. Poplawski.

Sincerely yours,

CEDARS-SINAI MEDICAL CENTER

James D. Laur
Deputy General Counsel

cc: Edward M. Prunchunas (via e-mail)
Shlomo Melmed, M.D. (via e-mail)
Daniel M. Oshiro (via e-mail)
Patricia N. Pierson
Peter E. Braveman, Esq. (via e-mail)
Edward G. Poplawski, Esq. (via telefax)

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SUMMARY
OF
CALIFORNIA LAW
Ninth Edition

by B. E. WITKIN
of the San Francisco Bar

Volume 1

has an interest in enforcing it according to California law. *Held*, the express provision of the contract obligated plaintiff insurer to comply with Minnesota law. (157 C.A.3d 552.)

(4) Where No Choice Made.

(aa) Place of Contracting.

(i) [§46] Significance of Factor.

The place of contracting, standing alone, may be relatively insignificant; but it is usually one of several contacts. For this reason, validity of a contract will ordinarily be determined by the local law of the state of contracting. (Rest.2d, Conflict of Laws §188(2)(a), Comment e.) (For cases following the traditional rule that the law of the place of making governs validity, see *Fenton v. Edwards & Johnson* (1899) 126 C. 43, 46, 58 P. 320 [contract valid where made is valid everywhere]; *Mercantile Acc. Co. v. Frank* (1928) 203 C. 483, 485, 265 P. 190 [same]; *Hutchinson v. Hutchinson* (1941) 48 C.A.2d 12, 21, 119 P.2d 214 [mere difference in law is no reason for refusing to enforce contract valid in state where made]; see also Leflar 3d, §§144, 145; 16 Am.Jur.2d, Conflict of Laws §75 et seq.)

(ii) [§47] What Constitutes Place of Contracting.

(a) *Place Where Last Act Done.* The place of contracting is the place where the last act is done which is necessary to give a contract binding effect, under the forum's rules of offer and acceptance, "assuming, hypothetically, that the local law of the state where the act occurred rendered the contract binding." (Rest.2d, Conflict of Laws §188(2)(a), Comment e.) (See *Michelin Tire Co. v. Coleman & Bentel Co.* (1919) 179 C. 598, 604, 178 P. 507; *Hardy v. Musicraft Records* (1949) 93 C.A.2d 698, 701, 209 P.2d 839 [offer sent from New York to California, acceptance mailed here; held made in California]; *Commercial Cas. Ins. Co. v. Industrial Acc. Com.* (1952) 110 C.A.2d 83, 90, 242 P.2d 13 [place where formal contract signed]; *Leven v. Legarra* (1951) 103 C.A.2d 319, 320, 229 P.2d 383; *Reynolds Elec. & Engineering Co. v. Work. Comp. App. Bd.* (1966) 65 C.2d 429, 433, 55 C.R. 248, 421 P.2d 96, *Workers' Compensation*, §102; 13 So. Cal. L. Rev. 247; 50 Harv. L. Rev. 1160; Leflar 3d, §145; 16 Am.Jur.2d, Conflict of Laws §§76, 77; for similar test in *venue* and *attachment* cases, see 3 *Cal. Proc.*, 3d, *Actions*, §§596 et seq., 613; 6 *Cal. Proc.*, 3d, *Provisional Remedies*, §59; and see 1950 A.S. 46 [problem of

(cc) [§49] Location of Subject Matter.

The situs of the subject matter of a contract is an important contact "when the contract deals with a specific physical thing, such as land or a chattel, or affords protection against a localized risk, such as the dishonesty of an employee in a fixed place of employment." (Rest.2d, Conflict of Laws §188(2)(d), Comment e.) The state where the res or the risk is located has a legitimate interest in transactions affecting the res or the risk; and, when the res or the risk is the principal subject of the contract, it can often be assumed that the parties intended their contract to be governed by the local law of such state. (Rest.2d, Conflict of Laws §188(2)(d), Comment e.)

(dd) [§50] Domicile and Other Factors.

Domicile, residence, nationality, place of incorporation, and place of business of the parties may each be a significant contact with respect to a particular issue. (Rest.2d, Conflict of Laws §188(2)(e), Comment e; on concept of domicile, see 2 *Cal. Proc.*, 3d, *Jurisdiction*, §§98, 99; *Parent and Child.*) Thus, the capacity of a party to contract will usually be upheld if the party has such capacity under the local law of the state of his domicile. (Rest.2d, Conflict of Laws §198(2); see infra, §53.)

Domicile gains enhanced significance if combined with other contacts. If both parties to the contract have domiciles in the same state, or if the state of domicile of one of the parties is the same as the place of contracting or of performance, the law of such state may be held determinative of most issues. (Rest.2d., Conflict of Laws §188(2)(e), Comment e.)

(5) [§51] Public Policy Exception.

The forum will not enforce a contract which is valid in accordance with an otherwise applicable foreign law if enforcement of the contract is deemed to be opposed to some important consideration of public policy. (See *Frame v. Merrill Lynch* (1971) 20 C.A.3d 668, 673, 97 C.R. 811 [agreement for application of New York law cannot be allowed to defeat "strong public policy" of California]; *Hall v. Superior Court* (1983) 150 C.A.3d 411, 417, 197 C.R. 757, 2 *Cal. Proc.*, 3d, *Jurisdiction*, Supp., §289A; Leflar 3d, §48; Scoles & Hay §18.4; 16 Am.Jur.2d, Conflict of Laws §16 et seq.; 15 U.C.L.A. L. Rev. 833; 81 Harv. L. Rev. 1864; 1 San Diego L. Rev. 122 [gambling transaction]; 1945 A.S. 46; 1965 A.S. 44; on public policy objections to enforcement of contracts made in foreign countries, see 1943 A.S.

though left out of defendant vendor's escrow instructions]; *Pacific Employers Ins. Co. v. Berkeley*, supra, 158 C.A.3d 150, citing the text.)

4. [§688] Surrounding Circumstances.

"A contract may be explained by reference to the circumstances under which it was made, and the matter to which it relates." (C.C. 1647.) "For the proper construction of an instrument, the circumstances under which it was made, including the situation of the subject of the instrument, and of the parties to it, may also be shown, so that the judge be placed in the position of those whose language he is to interpret." (C.C.P. 1860.) (See *First Nat. Bank v. Bowers* (1903) 141 C. 253, 261, 74 P. 856; *Payne v. Commercial Nat. Bank* (1917) 177 C. 68, 72, 169 P. 1007; *Palma v. Leslie* (1935) 6 C.A.2d 702, 707, 45 P.2d 391; *Wachs v. Wachs* (1938) 11 C.2d 322, 326, 79 P.2d 1085 [circumstances held admissible to explain term "transaction" in contract for division of real estate commissions]; *Walsh v. Walsh* (1941) 18 C.2d 439, 443, 116 P.2d 62 [words "child or children" held ambiguous, might possibly be limited to minors or merely applied to relationship irrespective of age]; *Ross v. Pacific Mortg. & Guaranty Co.* (1936) 16 C.A.2d 672, 675, 61 P.2d 368 [phrase "by way of pledge," without statement that property pledged as security for a particular debt]; *Gibson v. De La Salle Institute* (1944) 66 C.A.2d 609, 619, 152 P.2d 774; *Wells v. Wells* (1946) 74 C.A.2d 449, 457, 169 P.2d 23, 2 *Cal. Evidence*, 3d, §983; *Willson v. Niagara Duplicator Co.* (1948) 88 C.A.2d 63, 74, 198 P.2d 362; *Barham v. Barham* (1949) 33 C.2d 416, 423, 202 P.2d 289; *Mayers v. Loew's* (1950) 35 C.2d 822, 829, 221 P.2d 26; *MacIntyre v. Angel* (1952) 109 C.A.2d 425, 429, 240 P.2d 1047; *Lathrop v. Gauger* (1954) 127 C.A.2d 754, 762, 274 P.2d 730; *Wechsler v. Capital Trailer Sales* (1963) 220 C.A.2d 252, 263, 33 C.R. 680 [interpretation of ambiguous provision]; *In re Marriage of Williams* (1972) 29 C.A.3d 368, 378, 105 C.R. 406; *Moss Dev. Co. v. Geary* (1974) 41 C.A.3d 1, 13, 115 C.R. 736; Rest.2d, Contracts §202(1); 3 Corbin §§536, 537, 542, 543; 4 Williston 3d §§618, 629, 630; 17 Am.Jur.2d, Contracts §§272, 273.)

This rule of construction was formerly limited by the "plain meaning rule"; i.e., where the language of an integrated writing was clear, evidence of circumstances was "inadmissible" to establish a

DEERING'S CALIFORNIA CODES ANNOTATED

*** THIS SECTION IS CURRENT THROUGH THE 2002 SUPPLEMENT (2001 SESSION) ***

CIVIL CODE
DIVISION 3. Obligations
PART 2. Contracts
TITLE 3. Interpretation of Contracts

<=1> GO TO CODE ARCHIVE DIRECTORY FOR THIS JURISDICTION

Cal Civ Code § 1646 (2001)

§ 1646. Law of place

A contract is to be interpreted according to the law and usage of the place where it is to be performed; or, if it does not indicate a place of performance, according to the law and usage of the place where it is made.

HISTORY:
Enacted 1872.

NOTES: HISTORICAL DERIVATION:
Field's Draft NY CC § 811.

CROSS REFERENCES:
Ascertainment of intent from language: CC § 1638.
Words to be understood in ordinary sense: CC § 1644.
Local usage: CCP §§ 1861, 1870.

COLLATERAL REFERENCES:
Witkin Summary (9th ed) Contracts § 62.
Miller & Starr, Cal Real Estate 2d § 10:34.

LAW REVIEW ARTICLES:
What law governs negotiability of note. *4 Cal LR 141.*
Quasi contract and conflict of laws. *31 LA Bar B 71*
Conflict of laws as to contracts. *12 SCLR 335*

ANNOTATIONS:
Validity of contractual provision authorizing venue of action in particular place, court, or county. *69 ALR2d 1324.*
Choice of law in construction of insurance policy originally governed by law of one state as affected by modification, renewal, exchange, replacement, or reinstatement in different state. *3 ALR3d 646*
Law of forum against wagering transactions as precluding enforcement of claim based on gambling transactions [illegible]

[illegible]
3. Place of Performance
4. Place Where Made
5. [illegible]

DEERING'S CALIFORNIA CODES ANNOTATED

*** THIS SECTION IS CURRENT THROUGH THE 2002 SUPPLEMENT (2001 SESSION) ***

CODE OF CIVIL PROCEDURE
PART 4. Miscellaneous Provisions
TITLE 1. General Principles of Evidence

« 1 » GO TO CODE ARCHIVE DIRECTORY FOR THIS JURISDICTION

Cal Code Civ Proc § 1860 (2001)

§ 1860. Circumstances considered

For the proper construction of an instrument, the circumstances under which it was made, including the situation of the subject of the instrument, and of the parties to it, may also be shown, so that the judge be placed in the position of those whose language he is to interpret.

HISTORY:
Enacted 1872.

NOTES: OFFICIAL COMMENT:

CODE COMMISSIONERS' NOTE:
To arrive at the intention of an instrument, the situation of the parties and the subject-matter at the time of contracting should be considered. The whole instrument should be taken together, and, if possible, effect be given to all its parts, even though the immediate object of inquiry is the meaning of an isolated clause. If the words be ambiguous, the meaning may be gathered from contemporaneous facts which intrinsic testimony establishes. See Brannan v Mesick, 10 C 95; see also Ferris v Coover, 10 C 590; Jenny Lind Co. v Bower, 11 C 194; Pierce v Robinson, 13 C 116; Brewster v Lathrop, 15 C 21; Richardson v Scott River Water etc. Co. 22 C 150; Colton v Seavey, 22 C 497; Verzan v McGregor, 23 C 339; Saunders v Clark, 29 C 304; Began v O'Reilly, 32 C 13; Piercy v Crandall, 34 C 335; Reamer v Nesmith, 34 C 625; Piper v True, 36 C 613; Walsh v Hill, 38 C 484; Stanley v Green, 12 C 148; Hancock v Watson, 18 C 137; Kimball v Semple, 25 C 441; McNeil v Shirley, 33 C 203; see notes to §§ 1858, 1859, ante. For description of real property, see § 2077, post.

CROSS REFERENCES:
Ordinary and technical words in code: CCP § 16; CC § 13.
Evidence of circumstances under which agreement made or to which it relates: CCP § 1856.
Parties' intent and understanding as test for writing: CCP §§ 1859, 1865.
Notice construed according to ordinary acceptation of terms: CCP § 1865.
Rules for construing descriptions in conveyances: CCP § 2077.
Ordinary and technical words in contracts: CC §§ 1644, 1645.
Explanation of contract by circumstances: CC § 1647.

COLLATERAL REFERENCES
Witkin Summary (9th ed) Contracts § 688.
Witkin Summary, p 749.

DEERING'S CALIFORNIA CODES ANNOTATED

*** THIS SECTION IS CURRENT THROUGH THE 2002 SUPPLEMENT (2001 SESSION) ***

LABOR CODE
DIVISION 3. Employment Relations
CHAPTER 2. Employer and Employee
ARTICLE 3. Obligations of Employee

GO TO CODE ARCHIVE DIRECTORY FOR THIS JURISDICTION

Cal Lab Code § 2863 (2001)

§ 2863. Preference to be given employer's business

An employee who has any business to transact on his own account, similar to that intrusted to him by his employer, shall always give the preference to the business of the employer.

HISTORY: Enacted 1937.

NOTES: HISTORICAL DERIVATION:
Former CC § 1988, as amended by Code Amdts 1873-74 ch 612 § 210 p 247.

DEERING'S CALIFORNIA CODES ANNOTATED

*** THIS SECTION IS CURRENT THROUGH THE 2002 SUPPLEMENT (2001 SESSION) ***

LABOR CODE
DIVISION 3. Employment Relations
CHAPTER 2. Employer and Employee
ARTICLE 3. Obligations of Employee

GO TO CODE ARCHIVE DIRECTORY FOR THIS JURISDICTION

Cal Lab Code § 2860 (2001)

§ 2860. Ownership of things acquired by virtue of employment

Everything which an employee acquires by virtue of his employment, except the compensation which is due to him from his employer, belongs to the employer, whether acquired lawfully or unlawfully, or during or after the expiration of the term of his employment.

HISTORY:
Enacted 1937.

NOTES: HISTORICAL DERIVATION:
Former CC § 1985.

CROSS REFERENCES:
Employee's rights to inventions: Lab C § 2870.
Customer list of telephone answering service deemed trade secret: B & P C § 16606.
Customer list of employment agency deemed trade secret: B & P C § 16607.
Trade secrets exception to requirement that county equalization hearing should be open to the public: Rev & Tax C § 1605.4.
Privilege to protect trade secret: Ev C § 1060.

COLLATERAL REFERENCES:
Witkin Summary (9th ed) Agency and Employment § 44.
Cal Jur 3d (Rev) Employer and Employee § 26.

LAW REVIEW ARTICLES:
Legal rights of employed inventors. *51 ABAJ 835*
California law of unfair competition takes turn--against employer. *41 Cal LR 38*
Employee's rights in his inventions. *21 LA Bar B 76*
Protecting intellectual property rights with employment agreements. *35 Prac Law 25*

ANNOTATIONS:

ANDREW PERRY MILLS et al., Respondents, v. GRACE SCHULBA,Individually and as Executrix., etc., Appellants
Civ. No. 13965

Court of Appeal of California, First Appellate District,Division Two

95 Cal. App. 2d 559; 213 P.2d 408; 1950 Cal. App. LEXIS 1001

January 12, 1950

PRIOR HISTORY: [***1]

APPEAL from a judgment of the Superior Court of San Mateo County. Andrew R. Schottky, Judge. *

* Assigned by Chairman of Judicial Council.

Action for reformation of a deed.

DISPOSITION: Affirmed. Judgment for plaintiffs affirmed.

CASE SUMMARY

PROCEDURAL POSTURE: Appellant sellers sought review of a judgment of the Superior Court of San Mateo County (California), which decreed the reformation of a deed, in respondent buyers' action to reform the deed.

OVERVIEW: The sellers had sold property to the buyers. The buyers later discovered that the deed described only the improved property and omitted all reference to the unimproved property, which the buyers alleged was supposed to be included in the sale and deed. The court found that the complaint properly pleaded mutual mistake by alleging the error of the attorney jointly employed, and its allegations brought the case within *Cal. Civ. Code § 3399*. The court found that the evidence clearly showed that both parties intended that the unimproved lot was to be included in the deed and sale. The evidence showed that the possession of the lot, including the key to the gate leading to the lot, was [illegible] court's implied finding that the buyers were not negligent in reading the deed, or, if they were, that such negligence was excusable.

OUTCOME: The court affirmed the judgment of the trial court.

CORE TERMS: deed, reformation, unimproved, frontage, feet, mutual mistake, improved, convey, negotiations, rescission, mortgage, jointly, garage, broker, rent, businessman, familiarity, reservation, excusable, draftsman, covenant, surveyor, demur, maps, insufficient to support, persuasive evidence, title in fee, title search, vacant lot, unchallenged

CORE CONCEPTS -

Civil Procedure: Pleading & Practice: Defenses, Objections & Demurrers: Motions to Dismiss
Contracts Law: Remedies: Reformation
In the absence of a demurrer, great liberality has been indulged in order to sustain faulty complaints in actions to reform contracts and the only inquiry is whether the pleading is sufficient as against a general demurrer.

Contracts Law: Defenses: Ambiguity & Mistake
Contracts Law: Remedies: Reformation
The mistake of a draftsman is a good ground for the reformation of an instrument that does not truly express the intention of the parties.

Contracts Law: Remedies: Reformation
In reformation cases, the evidence must be clear and convincing or something more than a preponderance.

Contracts Law: Defenses: Ambiguity & Mistake
Contracts Law: Remedies: Reformation
The mere failure of a party to read an instrument with sufficient attention to perceive an error or defect in its contents will not prevent its reformation at the instance

Appearances

Bullock, Wagstaffe & Daba for Respondents.

JUDGES: Goodell, J. Nourse, P. J., and Dooling, J., concurred.

OPINIONBY: GOODELL

OPINION: [*560] [**409] This appeal was taken from a judgment which decreed the reformation of a deed. The appellant Anthony Schulba died after the appeal was taken and his executrix was substituted.

Anthony and Grace Schulba owned two lots with a frontage of 73 feet, 5 inches, on Mission Street in Daly City. One, of irregular shape, with a frontage of 33 feet, 5 inches, has a two-story building thereon, the lower part of which is a shop and the upper part a dwelling. The other adjoins, with a frontage of 40 feet and a depth of about 100 feet, and was unimproved except for a fence, shed and garage.

[**410] In March, 1944, respondents, acting through a broker, made a written offer to buy both lots for $10,000. Appellants rejected the offer but said they would[***2] sell for $10,500, which meant $10,000 net.

In July, 1944, the parties got together without a broker and orally agreed on $10,000 net. The down payment was made, a deed recorded, a mortgage given, and respondents went into possession of both lots about August 22, 1944.

Some 19 months later it was discovered that the deed described only the improved property (the 33 ft., 5 in. lot) [*561] and omitted all reference to the unimproved 40-foot lot. This suit was promptly brought.

The court found "that both parties understood that both parcels were to be included in the transaction and were covered by the deed, and that they were not both included because of a mutual mistake of the parties."

Appellants' four points are (1st) that the amended complaint does not state a cause of action; (2d) that the evidence is insufficient to support the findings and judgment; (3d) that plaintiffs' remedy, if any is rescission, not reformation, and (4th) that plaintiffs are precluded from relief by their own negligence.

Appellants' attack on the amended complaint comes at

In the amended complaint it is alleged that defendants, owners of both lots, agreed to sell them to plaintiffs for $10,000; that the parties jointly employed an attorney [naming him] for the purpose of preparing the necessary deed and mortgage and of securing title searches and title insurance; that on or about August 22, 1944, defendants delivered to plaintiffs a "joint tenancy deed, a copy of which is attached to the original complaint . . . as exhibit A, and is incorporated herein as though repeated and repleaded in full"; that such deed did not convey the two lots "and that the failure of said deed to convey the two said lots is the result of a mistake on the part of [the attorney] acting for and in behalf of all of the parties hereto and that it was the intention of the parties hereto that said deed should convey . . . title in fee simple in the two said lots . . . That both the plaintiffs and the defendants herein relied upon [the attorney] to so draw the deed as to convey[***4] title in fee simple . . ."

Our courts have repeatedly held that the mistake of a draftsman is a good ground for the reformation of an instrument which does not truly express the intention of the parties (22 Cal.Jur. 719 and cases cited; see, also, *Merkle v. Merkle, 85 Cal.App. 87, 107-8 [258 P. 969]).* The complaint not only alleges such mistake but goes further and alleges that the draftsman was "jointly employed," the theory being, apparently, [*562] that his mistake was the mutual mistake of the principals who placed reliance in him.

The mistake of an attorney chosen by both sides to effect a transfer of title is not unlike that of a surveyor chosen by both sides to run a line, who runs it in the wrong place resulting in an erroneous description in the deed. Such a case was *Breen v. Donnelly, 74 Cal. 301 [15 P. 845],* (cited in *Hart v. Walton, 9 Cal.App. 502, 508 [99 P. 719])* where reformation was decreed.

In 45 American Jurisprudence, pages 618-619 this is said: "A mutual mistake of their agents is not necessarily a mistake of the parties. Undoubtedly, it would be . . . where the mistake was made by a scrivener who acted as common agent[***5] of both parties in drafting the instrument; . . ." (See, also, *26 A.L.R. 506; Meek v. Hurst (1909), 223 Mo. 688 [122 S.W. 1022, 1024, 135 Am.St.Rep. 531]* and *Kobylinski v. Szeliga, 307 Mich. 306 [11 N.W.2d 899].)*

[157] and our only inquiry is whether the pleading is sufficient as against a general demurrer.

in their answer they referred [**411] to the same exhibit attached to the superseded pleading. Thus there was an

aider (21 Cal.Jur. 277), and both sides went to trial assuming that the deed was properly pleaded.

The amended complaint pleads a mutual mistake by alleging the error of the attorney "jointly employed," and its allegations bring the case within section 3399, Civil Code. This conclusion is supported by *Seegelken v. Corey, 93 Cal. 92, 95 [28 P. 849]* and *Robertson v. Melville, 60 Cal.App. 354, 358-9 [212 P. 723]*, as well as by cases already cited.

Appellants' second point is that the evidence is insufficient to support the findings and judgment.

There are but few conflicts in this record.

It was established[***6] by documentary evidence that in the first negotiations an offer was made by respondents to purchase both lots for $10,000. Those negotiations broke down on the difference in price between $10,000 gross and $10,000 net. The final negotiations which were oral, informal, and without the aid of a broker, eventuated in an agreement on $10,000 net, precisely the figure for which appellants had originally held out. These undisputed facts and the coincidence of figures were persuasive evidence that the property on which the parties came to terms in July was identical with that as to which they had negotiated in March, namely, both lots.

[*563] After the attorney had agreed to represent respondents as well as appellants, Mills gave him, according to both respondents, the document containing the rejected offer, which referred to both lots, saying, "This is the property I am buying." The attorney denied this, testifying that he never saw that document until the trial. Respondents testified that on the same occasion the attorney replied that the document did not contain "a complete description of the property, which I will get from Mr. Schulba and have a title search on this[***7] property." It is undisputed that he obtained from Schulba an old deed but it described only the improved property. That description became the basis for the title search, the policy, the deed and the mortgage.

The following circumstances attending the transfer are persuasive evidence that both parties intended the unimproved lot to be included in the deed. (1) Possession of that lot was given to respondents in August, 1944, at the Mills' son with the statement "It is not my key." For almost two years appellants had rented the garage on the unimproved lot to the Campbells and in August after the transfer, when they tendered the rent to Schulba, he told them, according to their testimony, to pay it to Mills as the lot had been sold to him. They did so thereafter. Indeed Schulba admitted that he told Campbell "From now on . . . pay the rent to Mr. Mills." (4) When Schulba removed his trucks and other property from the lot after the sale he left a power saw with Mills' permission, and later when he returned to get it[***8] he told Mills "This is all, everything is yours now." (5) When tax time came around in 1945 after the sale, the tax bills for both lots were sent to appellants, and Schulba turned them over to Mills, saying according to Mills' testimony, "This is your property now, you must pay the taxes on it," and respondents paid them.

Schulba testified that he intended to sell, and sold, only the improved property. The only explanation he gave for turning over the key to the gate was that Mills asked for it, and his explanation of respondents' possession of the vacant lot -- which ran unchallenged for 19 months -- was that he had no objection to respondents using the lot. He gave no satisfactory explanation for his direction to pay the garage rent to Mills. He denied giving respondents the 1945 tax bill for [*564] the unimproved lot but added "May be if I did it was a mistake." At any rate such explanations as he did give respecting these inconsistent acts did not convince the trial court.

When the tax bills were sent out in the spring of 1946, the bill for the unimproved lot was mailed to appellants at their old [**412] address and respondents readdressed the envelope to appellants' [***9] new home in Redwood City. Thereafter the attorney in question ascertained at the assessor's office that record title to the vacant lot still stood in appellants' names. On March 18, 1946, acting then on behalf of appellants, he wrote respondents demanding possession of the lot or $40 monthly rental therefor. Respondents testified that this was the first notice they had that both lots had not been included in the deed. It is readily understandable that the trial court could have concluded that appellants made the same discovery only when they received the 1946 tax bill and the attorney checked the records.

In reformation cases the evidence must be clear and convincing "or something more than a preponderance" (*Moore v. Vandermast, Inc., 19 Cal.2d 94, 96-7 [119 P.2d 129]*). It is not difficult to see why the trial court found the evidence sufficient to meet that strict test

[illegible] *[203 P. 102]*)

Appellants' fourth contention is that plaintiffs[***10] are precluded from relief because of their negligence in failing to read the title papers with sufficient care and attention to discover the error.

Usually such claimed negligence is the failure to read some provision, condition, covenant or reservation contained in a writing. Here, however, the claimed negligence is Mills failure to discover an error in a legal description of real property. In determining the question of fact whether or not the failure was excusable the trial judge presumably gave consideration to the peculiar nature of the words and figures which are supposed to have been read. The description is one by metes and bounds, of an irregularly shaped piece of land, and it takes up 22 lines of single-spaced typewriting. The difference is obvious between the act of reading such technical matter, with its language respecting lines and corners and its references to maps, and the books and pages of maps, on the one hand, and the act of reading a provision, condition, covenant [*565] or reservation, on the other. Appellants argue that Mills should have caught the error in this description since the frontage is given therein as 33 feet, 5 inches, which is less than[***11] half the total frontage. They argue that he is an experienced businessman. He admitted his familiarity with business in so far as it concerns personal property, but disclaimed familiarity with real estate transactions or legal descriptions. Under cross-examination it developed that he had had only one such transaction before, and then everything was handled by a building and loan company While Mills might be a businessman, he is neither a lawyer nor a surveyor, and it is an admitted fact that both parties relied on the attorney, who previously for about two years had been escrow officer of a title company, and presumably an expert. All these questions were for the trier of fact who presumably concluded that if Mills was careless in not detecting the error in description his inadvertence (as said in *Los Angeles etc. Co. v. New Liverpool Salt Co., 150 Cal. 21, 28 [87 P. 1029]*) was "of a character which will sometimes occur in the conduct of men of prudence and caution." In other words, to paraphrase *Burt v. Los Angeles etc. Assn., 175 Cal. 668, 675-6 [166 P. 993]*, the cause of his failure was satisfactorily explained to the court, which determined "that the explanation[***12] or excuse of the failure relieves from the charge of the neglect of a legal duty within the meaning of *section 1577* of the Civil Code."

In the New Liverpool Salt case, supra, at page 27 the court says: "It has been frequently decided that the mere failure of a party to read an instrument with sufficient attention to perceive an error or defect in its contents will not prevent its reformation at the instance of the party who executes it thus carelessly." That case has been followed in *Travelli v. Bowman, 150 Cal. 587, 591 [89 P. 347]; California Packing Corp. v. Larsen, [**413] 187 Cal. 610, 614*, supra, and *Hanlon v. Western etc. Co., 46 Cal.App.2d 580, 597-8 [116 P.2d 465]*.

There is no basis for overturning the trial court's implied finding that respondents were not negligent, or, if they were, that such negligence was excusable.

Appellants' remaining contention (their third point) is that respondents' remedy, if any, is by rescission and not reformation. If respondents are entitled to reformation they would certainly be denied a complete equitable remedy if relegated to rescission. We are satisfied, as appears from the discussion of the[***13] three preceding points, that respondents [*566] have pleaded and proved a case clearly entitling them to a reformation of the deed, hence there is no point in discussing the cases cited under the present head.

The judgment is affirmed.

HAROLD WACHS, Appellant, v. LIONEL WACHS, Respondent
S. F. No 15937

Supreme Court of California

11 Cal. 2d 322; 79 P.2d 1085; 1938 Cal. LEXIS 306

May 27, 1938

PRIOR HISTORY: [***1]

APPEAL from a judgment of the Superior Court of Alameda County. Edward J. Tyrrell, Judge.

DISPOSITION: Reversed.

CORE TERMS: partnership, negotiation, dissolution, parol evidence, offer of proof, lease, persons named, interpreted to mean, written instrument, suggested meaning, subject matter, color, agrees to pay, chain store

COUNSEL: Fitzgerald, Abbott & Beardsley, for Appellant.

McKee, Tasheira & Wahrhaftig, for Respondent.

JUDGES: In Bank.

OPINIONBY: THE COURT

OPINION: [*323] [**1085] A hearing of the instant appeal by this court after decision thereon by the District Court of Appeal has resulted in the conclusion that the decision that was rendered by the latter court is correct. The opinion therein, which was prepared by Mr. Justice Spence, is therefore adopted as the opinion of this court. It is as follows:

"Plaintiff brought this action upon a contract seeking to recover a share of certain commissions claimed to be due him under the terms of said contract. From a judgment in favor of defendant, plaintiff appeals.

"[**1086] For approximately ten years prior to October 1, 1931, plaintiff and defendant had engaged in

"'It is contended by Harold Wachs that there is a good will which appertains to the partnership and that upon the dissolution thereof compensation should be made to Harold Wachs by Lionel Wachs. Attached hereto is a list called schedule 10 of the persons with whom Wachs Bros. have been in contact during the life of the partnership and to whom maps, letters and other literature have been sent. . . . Lionel Wachs hereby agrees to pay to Harold Wachs out of the commissions earned from any transactions consummated on or before October 1, 1934, a sum not to exceed $2,500, which sum shall be payable as follows: When any transaction leading to a commission is closed as to any persons on said Schedule 10 . . . Lionel Wachs agrees to pay 25% thereof to Harold Wachs, within thirty days after the receipt thereof, until the sum of $2,500 has been paid.'

"In his complaint, plaintiff alleged among other things 'That the persons listed on said Schedule 10, by reason of [*324] their ownership of property, or interests in property, or their contacts with owners of property, or owner of interest in property, were persons with or through whom future patronage was anticipated by said partnership'. [***3] These allegations of the complaint were stricken out upon motion of defendant.

"On the trial plaintiff made an offer of proof to which an objection was sustained by the trial court. It appeared that approximately 200 persons were named on said schedule 10. It was stated in the contract that said schedule contained a list of 'the persons with whom Wachs Bros. have been in contact during the life of the partnership'. (Italics ours.) (A perusal of the list shows that, with four or five exceptions, it was made up entirely of the names of natural persons rather than of corporations of partnerships. The addresses of said persons were listed, which addresses in numerous cases were listed as in care of some bank, investment

[redacted] briefly summarizes the offer to prove that approximately 50 persons named on said list were either officers, agents or employees of certain

principals such as banks, investment companies, chain store corporations or other commercial institutions, and that said persons had[***4] acted for and on behalf of their respective principals in dealing with the partnership as real estate brokers prior to the dissolution; that the partnership had never had any transactions with said 50 persons in their individual capacities but had had numerous transactions with them in their respective representative capacities, which transactions had resulted in the payment of commissions to the partnership. It was stated that said offer of proof was made to show the capacities in which said persons had acted in dealing with partnership prior to its dissolution and to place before the trial court the circumstances surrounding the making of the contract in order to enable the trial court to determine the meaning of the words 'When any transaction leading to a commission is closed as to any persons on said Schedule 10' as used in said contract. It was stipulated by the parties that after the dissolution and between October 1, 1931, and October 1, 1934, transactions were had with certain persons named in said offer of proof and in said schedule 10 in their representative capacities and [*325] on behalf of their said principals, and that said transactions resulted in net commissions[***5] paid to defendant Lionel Wachs in a sum in excess of $8,000. This action was brought to recover a portion of said last-mentioned commissions.

"Appellant contends that the trial court erred in granting the motion to strike and in sustaining the objection to the offer of proof and therefore the judgment should be reversed. In our opinion this contention must be sustained.

"The parties agree upon the general principles of law applicable in determining the admissibility of parol evidence in connection with written contracts but they disagree upon the question of whether such evidence was admissible here. It is conceded that the question involved is whether the language 'When any transaction leading to a commission is closed as to any person on said Schedule 10', as used in said contract, is clear and explicit or whether said language involves such an uncertainty as to permit the introduction of parol evidence in aid of the interpretation thereof. It is further conceded that 'the question whether an [**1087] uncertainty or ambiguity exists is one of law, and the lower court's finding on this issue is not binding on appeal'. (*Brant v. California Dairies, Inc., 4 Cal* [illegible] to permit the introduction of the parol evidence offered.

"The word 'transaction' may imply something more than sale, lease or contract as used in the contract before us. It has been stated that said word embraces within its meaning 'the doing or performing of any business' (Bouvier's Law Dictionary); 'negotiation' (*United States v. Pan American Petroleum Co., 55 Fed. (2d) 753);* 'negotiations affecting property rights, contracts, agreements, and the negotiations resulting in contracts and agreements and in the transfer of titles'. (*Tanner v. State, 161 Ga. 193 [130 S. E. 64].)* Other definitions may be found in the authorities of which we need cite but a few. (*Stephens v. Short, 41 Wyo. 324 [285 Pac. 797]; Bright v. Virginia etc. Co., 270 Fed. 410; Southeastern Life Ins. Co. v. Palmer, 120 S. C. 490 [113 S. E. 310]; Wilson v. Wilson, 83 Neb. 562 [120 N. W. 147].)* Perhaps the word 'transaction' is such a word as was[***7] in the mind of Mr. Justice Holmes when he said, 'A word is not a [*326] crystal, transparent and unchanged, it is the skin of a living thought and may vary greatly in color and content according to the circumstances and the time in which it is used.' (*Towne v. Eisner, 245 U.S. 418, 425 [38 Sup. Ct. 158, 62 L. Ed. 372,* L. R. A. 1918D, 254].)

"What then is the meaning, or the 'color and content', of the word 'transaction' as used in the contract before us? Should the phrase in question be interpreted to mean 'when any sale, lease or contract leading to a commission is closed as to any person on said Schedule 10' or should it be interpreted to mean 'when any negotiation (doing of any business) leading to a commission is closed as to any person on said schedule 10.' If the first suggested meaning be given to the word 'transaction', then perhaps, the language should be restricted to those cases in which sales, leases or contracts leading to commissions were closed as to the persons named on schedule 10 as principals. If the second suggested meaning be given, then the language is broad enough to include those cases in which the negotiations leading to a commission were[***8] closed as to the persons on said schedule 10 either as principals or as representatives of others. It cannot be said from a reading of the contract whether the word 'transaction' was intended to convey the first or second meaning above suggested. It is one of those contracts where the words 'consistently admit of two interpretations, according to the subject matter in contemplation of the parties' and in which 'parol evidence might be admitted to show the circumstances under which the contract was made and the subject [illegible] court should therefore have permitted appellant to plead and prove the surrounding circumstances, not for the

purpose of varying the terms of the written instrument, but for the purpose of aiding the court in interpreting the contract of the parties as embodied in the written instrument."

The judgment is reversed

EXHIBIT F

CALIFORNIA LABOR CODE §§ 2860 and 2863, from WEST'S ANNOTATED CALIFORNIA CODES, vol. 44, pp. 640, 645 (West Publ. Co.: 2000).

§ 2860. Ownership of things acquired by virtue of employment

Everything which an employee acquires by virtue of his employment, except the compensation which is due to him from his employer, belongs to the employer, whether acquired lawfully or unlawfully, or during or after the expiration of the term of his employment.

(Stats.1937, c. 90, p. 260, § 2860.)

§ 2863. Preference to performance of employer's business

An employee who has any business to transact on his own account, similar to that intrusted to him by his employer, shall always give the preference to the business of the employer.

(Stats.1937, c. 90, p. 260, § 2863.)